

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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June 18, 2008

Mr. Daryl Halls, Executive Director
Solano Transportation Authority
One Harbor Center, Suite 130
Suisun City, CA 94585

Re: Solano Transportation Authority
Audit of Indirect Cost Allocation Plan for Fiscal Year 2008
File No: P1190-0667

Dear Mr. Halls:

We have audited the Solano Transportation Authority's (STA) Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2008 to determine whether the ICAP is presented in accordance with Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. The STA management is responsible for the fair presentation of the ICAP. The STA proposed an indirect cost rate of 90.89 % of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the STA. Therefore, we did not audit and are not expressing an opinion on the STA's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the STA, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in the OMB Circular A-87 and the Department's LPP 04-10, and is not intended to present the results of operations of the STA in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a comparison of the ICAP to single audit report for the fiscal year ended June 30, 2006, inquiries of STA personnel, and a comparison of the FY 2008 ICAP to prior year ICAPs, and prior audit field work performed by Department staff on March 14, 2007. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our finding and recommendation take into consideration the STA's response dated May 9, 2008, to our May 5, 2008 draft finding. Our finding and recommendation, a summary of STA's response and our analysis of the response are detailed below.

AUDIT RESULTS

Based on audit work performed, the STA's ICAP for the fiscal years ended June 30, 2008 are presented in accordance with OMB Circular A-87 and LPP 04-10. The approved indirect cost rate is 90.89% of total direct salaries and wages, plus fringe benefits. The approval for fiscal year ended June 30, 2008 is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

Unresolved Prior Audit Finding

During our review of invoices submitted to the Department for the reimbursement of FY 2008 costs, we found that the STA billed the Department for indirect costs without an approved indirect rate. We previously identified this issue in our audit report P1190-0480, dated June 27, 2007 in which the STA billed for indirect costs without an approved indirect rate from FY 2003 to FY 2007. The Department's LPP 04-10, Accounting/Invoices, restricts reimbursement of indirect costs without a prior approval of the indirect cost rate. Submitting invoices which include indirect costs without an approved indirect cost rate may result in an overpayment and reimbursement of indirect costs to the STA by the Department.

Recommendation

We recommend that the STA refrain from requesting reimbursement from the Department for any indirect costs without an approved indirect cost rate.

Also, we recommend the Department ensure that it does not reimburse the STA for indirect costs unless it has an approved indirect rate.

STA Response

In its response, the STA stated that it submitted its first Indirect Cost Allocation Plan to Caltrans in May 2003. It was not until June 2007 that the Department was able to respond,

identify deficiencies, and issued findings to the submitted ICAP, which finally lead to the approval of STA's ICAP Rate. As the Congestion Management Agency (CMA) for Solano County, and partner with various transportation and planning agencies, such as the Metropolitan Transportation Commission and the Caltrans District 4; without the indirect cost reimbursement; the STA's ability to maintain the schedule and delivery commitments to various transportation projects will be severely impacted. The STA understands and has followed the Indirect Costs approval process of The Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local and Indian Tribal Government, and the Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10, but it has been Caltrans review process that resulted in delay and the prolonged approval process of ICAPs. Due to Caltrans prolonged review, if STA had waited until Caltrans approval of the ICAP rate it would have taken four years before the first reimbursement. The STA would like to know Caltrans' timeframe for ICAPs approval process that can reasonably be followed to avoid indirect cost reimbursement without prior approval.

Consequently, the STA's ICAP is a Fixed Rate calculated on an annual basis with the carry-forward provision. Any adjustment is carried forward to the second fiscal year following the adjusted year, such as the carry-forward provision for the STA's approved FY 2007 ICAP rate, which was approved at 80.35% using the annual budget cost, when finalized using the actual cost, the ICAP rate was at 82.75%. This ICAP under recovery of 2.4% will not be eligible for adjustment until the FY 2009 ICAP application. Therefore, STA should be allowed to charge the indirect cost rate from the ICAP Rate submitted in the application for the year as Provisionary Rate.

Analysis of Response

The Department understands the hardship that results for the STA without an approved indirect cost rate. However, it is the STA's responsibility to submit to the Department, ICAPs that meet the requirements as established by LPP 04-10 and OMB A-87. The ICAPs originally submitted by the STA to the Department for FY 2003 through FY 2007 were not in compliance with the LPP 04-10 and OMB A-87. These ICAPs included errors, which upon auditor's inquiries and recalculations, resulted in numerous adjustments and revisions to the final rates. The STA was consistently notified of the ICAP deficiencies by Audits and Investigations during the review process. Submitting ICAPs to the Department that are not referenced and reconciled to the supporting documentation and to the audited financial statements substantially lengthens the review and approval process. However, the Department has implemented new ICAP submittal requirements effective July 1, 2008. The new process will ensure that ICAP submittals are in compliance with 2 CFR 225, Appendix E, and should allow for a more expeditious review and approval process.

This report is intended solely for the information of the STA, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Allocation Plans for your files. Copies were sent to the Department's District 4, the Department's Division of Accounting and the FHWA. If you

Daryl Halls
June 18, 2008
Page 4

have any questions, please contact Elena Guerrero at (916) 323-7954 or Teresa Greisen, Audit Manager, at (916) 323-7910.


MARYANN CAMPBELL-SMITH
Chief External Audits

Attachments

c: Brenda Bryant, FHWA
Sue Kiser, FHWA
Gary Buckhammer, HQ Accounting
Andrew Knapp, HQ
Sylvia Fung, District 4
Saeed Totonchi, District 4
P1190-0667



2008 Indirect Cost Plan

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the Solano Transportation Authority and approved by Caltrans.

SECTION 1: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry forward	7/01/07 to 6/30/08	90.89%	All Programs

* Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rate in this Agreement is subject to any statutory or administrative limitations and applies to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rate is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) The estimated costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on estimate of the costs for the period covered by the rate. When the actual costs for this period are determined - either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements - any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by the Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by Caltrans in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate of Calculation:

FY 2008 Budgeted Indirect Costs	\$1,037,275
Carry Forward from FY 2007	<u> \$0 </u>
FY 2008 Adjusted Indirect Costs	\$1,037,275
FY 2008 Budgeted Direct Salaries and Wages plus Fringe Benefits	\$1,141,232
FY 2008 Indirect Cost Rate	90.89%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2008 (July 1, 2007 to June 30, 2008) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for

State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Solano Transportation Authority (STA)


Signature: 

Reviewed, Approved and Submitted by:

Name of Official: Daryl K. Halls

Title: Executive Director

Date of Execution: _____

Signature: 

Prepared by:

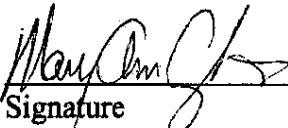
Name of Official: Susan Furtado

Title: Financial Analyst/Accountant

Telephone No.: (707) 424-6075

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.


Signature

Reviewed and Approved by:

Mary Ann Campbell-Smith
Name of Audit Manager

Title: Chief External Audits

Date: June 18, 2008

Phone Number: (916) 323-7105


Signature

Reviewed and Approved by:

Elena Guerrero
Name of Auditor

Title: Auditor

Date: June 18, 2008

Phone Number: (916) 323-7954



Solano Transportation Authority

**Budget Financial Statement FY 2007-08
Indirect Cost Allocation Plan (ICAP)**

Description	Total Budget Cost	Less: Exclusion	SNCI	Project Development	Strategic Planning	Total Direct Cost	Indirect Cost
Personnel Cost:							
Full time employees	1,319,853	150,919	333,984	203,126	260,272	797,382	371,552
Stipends/Non-Full Time Employee	27,780	15,300	-	-	-	-	12,480
Total Salaries	\$ 1,347,633	\$ 166,219	\$ 333,984	\$ 203,126	\$ 260,272	\$ 797,382	\$ 384,032
Fringe Benefits	595,433	71,012	151,678	79,732	112,440	343,850	180,571
Total Personnel Cost	\$ 1,943,066	\$ 237,231	\$ 485,662	\$ 282,858	\$ 372,712	\$ 1,141,232	\$ 564,603
						(a)	
Other Cost:							
Contract Employees	\$ 13,000	-	\$ 6,000	\$ -	\$ -	\$ 6,000	\$ 7,000
Legal Services	140,000	10,000	10,000	50,000	-	60,000	70,000
Audit Services	20,000	-	5,000	-	-	5,000	15,000
Other Professional Services	61,802	-	1,802	-	40,000	41,802	20,000
Accounting & Personnel Services	49,800	-	14,940	-	-	14,940	34,860
Consultant Services	13,852,372	235,388	812,162	11,458,453	1,346,369	13,616,984	-
Telephone	19,420	-	12,000	-	700	12,700	6,720
Cell Phone	7,600	-	1,000	-	-	1,000	6,600
Lease	179,933	-	53,980	-	-	53,980	125,953
Auto & Liability Insurance	40,000	-	9,000	-	-	9,000	31,000
Advertising	114,436	2,500	83,936	-	23,000	106,936	5,000
Printing/Binding	20,800	2,000	3,500	-	10,300	13,800	5,000
Mileage Reimbursement	10,175	200	2,000	1,025	1,950	4,975	5,000
Training/Conferences/Lobbying	39,500	20,500	4,200	2,500	3,400	10,100	8,900
Professional Mbrship/Books, Periodicals	14,000	6,500	4,000	-	1,500	5,500	2,000
General Supplies	112,660	5,700	67,498	500	17,800	85,798	21,162
Postage	20,591	4,000	6,391	-	200	6,591	10,000
Computer Software	10,500	-	2,000	-	2,500	4,500	6,000
Office & Equipment/Maintenance	11,000	-	5,000	-	-	5,000	6,000
Van Maintenance	1,000	-	500	-	-	500	500
Interest & Late Fees	500	500	-	-	-	-	-
Lease Payments	26,000	-	8,000	-	-	8,000	18,000
Office Equipment & Furniture Purchase	68,977	-	24,500	-	-	24,500	44,477
Computer Equipment	8,500	-	2,000	-	-	2,000	6,500
Building Maintenance	19,000	-	-	-	2,000	2,000	17,000
Contingency & Insurance Self Retention Reserve	108,801	108,801	-	-	-	-	-
Total Other Cost	\$ 14,970,367	\$ 396,089	\$ 1,139,409	\$ 11,512,478	\$ 1,449,719	\$ 14,101,606	\$ 472,672
Total Expenditures	\$ 16,913,433	\$ 633,320	\$ 1,625,071	\$ 11,795,336	\$ 1,822,431	\$ 15,242,838	\$ 1,037,275

(b)

Total Indirect Cost (b) divided by
Total Direct Salary/Fringe Benefit Cost (a)

Indirect Cost Rate: $\frac{(b) \$ 1,037,275}{(a) \$ 1,141,232} = 90.89\%$

1

1. Total Expenditures calculation are based on STA's approved revised budget for FY 2007/08 as of February 13, 2008.
2. Exclusions are in accordance with OMB A-87.